Utilities

Assessing Risk Of High Fuel Cost: Tenaga Is Sheltered; Gas Malaysia May Stand To Benefit If Crisis Prolonged

OVERWEIGHT
(Maintained)

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Highlights

- Combing through our universe, if we assume the crisis leads to high crude oil prices over a long period of time (>6 months), Gas Malaysia may stand to benefit from higher NG prices. Logically, this positive flow-through may also be mitigated by weak NG demand as higher fuel prices hurt the overall economy.
- Tenaga Nasional is likely to be sheltered under the IBR structure. Importantly, with the AFA, Tenaga Nasional's cashflow prowess will come into play, allowing it to protect its investment merits. Higher LNG prices – while not a significant cost lever to Malaysia power sector – may translate to marginally higher electricity tariffs eventually.
- To date, coal-based power plants account for 60% of capacity while gas is around 35%. This suggests Malaysia can manage the crisis in place. Maintain OVERWEIGHT. We like Tenaga Nasional.

Analysis

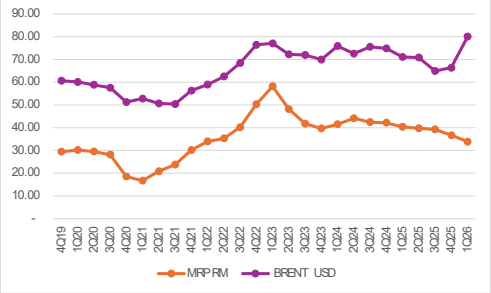
- **The Middle East conflict: Lack of LNG supply and higher global oil prices.** As the world's largest liquefied natural gas (LNG) producer, QatarEnergy has temporarily halted production of LNG. Qatar Energy also declared force majeure, absolving it from contractual obligations due to the drone attacks. In the past week alone, Asian LNG prices have risen 46% and Brent crude oil prices have increased by 21%.
- **Prolonged conflict: Gas Malaysia may stand to benefit.** Assuming the conflict leads to prolonged high oil prices (>6 months), Gas Malaysia Berhad (GMB) stands to benefit as higher NG prices translate to growing profitability. The high Brent prices today (in Mar 26) will translate to higher NG prices for GMB in Sep 26. There is a six-month lag effect as Malaysia NG prices are based on Malaysia Reference Price (MRP) – see RHS. GMB derives an estimated 40% of group net profit from Gas Malaysia Energy and Services Sdn Bhd (GMES) - a division in GMB that supplies NG to 1,013 industrial customers. Higher NG prices therefore translate to higher profitability for GMES, as NG are sold at cost plus a profit margin (% of NG prices). A 1% change in NG prices can swing GMB net profit by 4%, we estimate.
- **Tenaga Nasional: Limited to around 7% of LNG imports.** Higher LNG prices may translate to higher electricity prices – although we believe the impact is marginal as: a) 60% of electricity is still being generated from coal-based power plants – with only 35% of electricity generated from gas-based power plants; and b) Petronas still supplies 800mmscfd of NG from Kertih to the power sector. In 2025, the power sector utilised 856 mmscfd of NG – only 56mmscfd (or 7%) is subject to global LNG price and supply. Thanks to the Automatic Fuel Adjustment (AFA), Tenaga Nasional (Tenaga) will be sheltered from higher fuel prices as the higher costs will be reflected in higher electricity tariffs within the month. We believe Malaysia can manage this risk sensibly.

Sector Picks

Company	Rec	Target Price (RM)	EV/EBITDA (x)	Div Yield (%)
Tenaga	BUY	16.30	5.8	4.0

Source: Bloomberg, UOB Kay Hian

Malaysia Reference Price (MRP) In 1Q26



Source: Petronas, UOB Kay Hian

What Is MRP?

- MRP is the weighted-average price of LNG Free-on-Board exported from Malaysia as declared by the Department of Statistics, Malaysia (DOSM).
- MRP represents the prices of all LNG exported out of Malaysia.
- There is a lag effect of 6-7 months between Quarterly MRP and Brent.

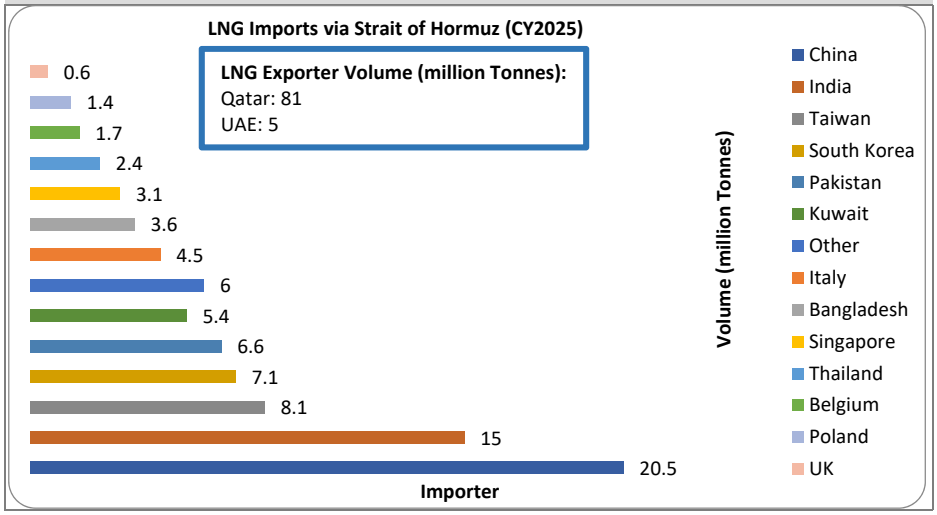
Source: Petronas,

Peer Comparison

Company	Ticker	Rec	Price 6 Mar 26 (RM)	Target Price (RM)	Market Cap (RMm)	PE 2026F (x)	PE 2027F (x)	EV/EBITDA 2026F (x)	EV/EBITDA 2027F (x)	Dividend Yield 2026F (%)	Dividend Yield 2027F (%)
Malakoff Corp	MLK MK	HOLD	0.775	0.90	3,787	14.5	12.6	4.6	4.1	5.8	6.7
Tenaga	TNB MK	BUY	14.20	16.30	82,774	16.8	16.3	5.8	5.8	4.0	4.3
Gas Malaysia	GMB MK	HOLD	5.01	4.50	6,433	15.2	14.8	9.4	9.2	5.0	5.2

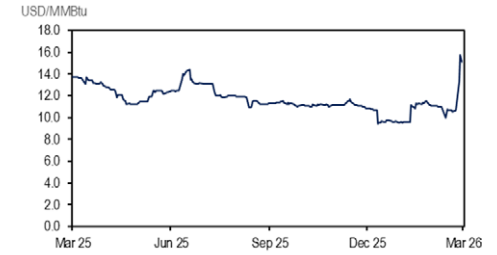
Source: Bloomberg, UOB Kay Hian

LNG Imports via Strait of Hormuz (2025)



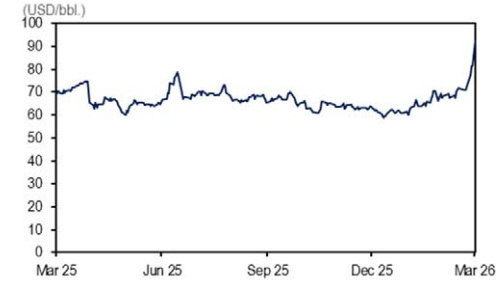
Source: Financial Times, UOB Kay Hian

Sharp Spike In LNG Prices



Source: Bloomberg, UOB Kay Hian

Crude Brent Prices



Source: Bloomberg, UOB Kay Hian

Valuation/Recommendation

- **Maintain OVERWEIGHT.** Tenaga will benefit from strong cash flow under the AFA and the monthly tariff setting. Additionally, potential opportunities of up to 8GW of brownfield and greenfield gas-fired power plants, as part of the government's decarbonisation plan, are a boon for the sector. Our sector top pick is Tenaga.

Sector Catalyst

- **Development of new RGTs in Peninsular Malaysia…** There are currently two operational regasification terminals (RGT) in Peninsular Malaysia, located in Melaka and Johor. We understand a third RGT is also being developed in Lumut. Even with these existing RGTs, demand for electricity and gas continues to grow rapidly in Peninsular Malaysia. We see a need to develop more RGTs in Peninsular Malaysia, especially as the Energy Commission (EC) has launched request for proposal (RFPs) to seek up to 8GW of electricity supply for 2025-29. As such, EC has called for proposals for the development of new RGTs.
- **…with a couple of locations being considered; proposals submitted at end-25, award by 1H26.** We believe interested parties have submitted their proposals to EC by end-25. According to EC, RGT configurations may include fixed or floating facilities, located onshore or offshore, with supporting infrastructure such as storage tanks, regasification units, berthing facilities, and interconnection pipelines where applicable.
- **Two locations likely to be proposed for RGT.** Based on our knowledge, at least two locations are likely to be proposed. One is located in Port Klang, tapping on existing port infrastructure to build an RGT, and another in the north to capitalise on depleting gas supply coming from the Malaysia-Thailand joint development area (sharing of gas reserves between both countries). Key beneficiaries include incumbent Petronas Gas (operator of two RGTs in Peninsular Malaysia), GMB (commanding 84% of industrial gas supply) and YTL Power.

Existing RGTs in Malaysia

LNG Regasification Plant	Capacity (tonnes per annum)	Commercial Operation Date
Regasification Terminal in Sungai Udang, Melaka (RGTSU)	3.8m	2Q13
Regasification Terminal in Pengerang, Johor (RGTP)	3.5m	4Q17

Source: UOB Kay Hian

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